

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Seven)

Docket No. RM2018-10

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued July 16, 2018)

To clarify the Postal Service's petition to consider changes in analytical principles (Proposal Seven), filed June 29, 2018,<sup>1</sup> the Commission requests that the Postal Service provide written responses to the following questions and requests. Answers to each question and the requested information should be provided as soon as they are developed, but no later than July 23, 2018.

1. In reference to the Postal Service proposal to consolidate the FSM/1000 into the AFSM 100 cost pool, the Petition states in consolidating the LD15LNT cost pool with the D/BCS cost pool that LDC 15 "is a small cost pool with total pool costs of \$1.8 million in FY 2017." Petition at 6. The Postal Service's Docket No. ACR2017 filing shows that LDC 15 had \$67.327 million in FY 2017.<sup>2</sup> Please confirm that the \$1.8 million refers to a labeling pool with the LMLM & LCREM (Letter Mail Labeling Machine & Low Cost Reject Encoding Machine) and the remainder of the \$67.327 million consists of the RECS pool (remote encoding centers). *Id.* If not confirmed, please explain.

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), June 29, 2018 (Petition). The Postal Service filed a public and non-public annex with the Petition. See Notice of Filing of USPS-RM2018-10/1 and USPS-RM2018-10/NP1 and Application for Nonpublic Treatment, June 29, 2018.

<sup>2</sup> See Docket No. ACR2017, USPS-FY17-7, December 29, 2017, folder "USPS-FY17-7 Excel Workbooks and Data," Excel file "USPS-FY17-7 part1.xlsx, tab I-2.CPool Costs-MODS."

2. In reference to the Postal Service proposal to consolidate the FSM/1000 into the AFSM 100 cost pool, the Postal Service states, “As of the beginning of FY 2017, the Postal Service still employed just 22 of the original 355 FSM 1000s, and the Postal Service expects continued decline in the use of the remaining UFSM 1000 equipment.” Petition at 6. According to the Postal Service’s Rule 3050.60(f) Report for FY 2017 for Cost Segment 3, “The UFSM[]1000 is designed to handle flat mail not suitable for the AFSM 100.”<sup>3</sup> The decline in the FSM/1000 cost pool’s accrued mail processing cost does not eliminate the stated purpose of UFSM 1000 to handle flat mail not suitable for the AFSM 100.
  - a. What is the expected rate of decline in the use of the remaining UFSM 1000 equipment and when will all of the UFSM equipment be removed from service?
  - b. After the UFSM 1000 equipment is retired, how will the Postal Service handle flat mail not suitable for the AFSM 100?
3. In support of the proposal to eliminate the MODS plant MECPARC and NDC NMO costs pools, the Petition states, “Currently, nearly all of the workhours in the MODS MECPARC cost pool in FY 2016 were in LCUS/HSUS/USS operations, and the very small amount of non-LCUS workhours appear to be the result of minor clocking errors in TACS....As with MECPARC, the remaining few hours are sufficiently small as to reflect minor TACS errors.” Petition at 8-9. Please explain the basis for the Postal Service’s conclusion that the reduced number of hours remaining in the MODS MECPARC and NDC NMO cost pools are the result of minor clocking errors in TACS. In the response, please identify any operationally legitimate reasons for an employee to be clocked into these operations.

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<sup>3</sup> Rule 39 C.F.R. Section 3050.60(f) Report for FY 2017 (Summary Descriptions), July 2, 2018, folder “CRA.Summary Description.FY17,” file “CS03-17.docx,” at 3-5.

4. In support of the proposal to consolidate MODS Function 4 cost pools with the non-MODS group, using the non-MODS cost pool definitions, the Petition states, “While the use of the non-MODS cost pool definitions would eliminate the use of census-based LDC-level costs for MODS offices, the larger effective sample sizes from combining MODS Function 4 tallies with non-MODS should result in little or no adverse effect on the coefficients of variation (CVs) for the sample-based cost estimates.” Petition at 11. Please provide an estimate of the percentage increase in sample size from combining MODS Function 4 tallies with non-MODS in relation to the percentage decrease in the precision of estimates using census-based LDC level costs for MODS offices.
5. The Postal Service’s Office of Inspector General issued a report in 2017 on Cost Segment 3 – Clerks and Mail Handlers.<sup>4</sup> The OIG Report stated, “The potentially misallocated amount was only .01 percent of the total \$10.9 billion in mail processing costs. Although it did not have a material impact on the reporting of FY 2015 Clerks and Mail Handlers Cost Segment data, ineffective MODS controls pose an increased data integrity risk, including the risk of reporting inaccurate mail processing costs for products and services.” OIG Report at 8. It noted, “The risk that the authorization, completeness, and/or accuracy of transactions as they are entered into, processed, summarized, and reported by application systems are compromised due to inadequate recording structures.” *Id.* at 8 n.17. The OIG Report listed five bulleted recommendations regarding the Postal Service’s documented procedures for preparing Cost Segment 3. *Id.* at 9-10. Please explain what measures have been taken and/or are being taken by the Postal Service to address the OIG Report’s criticisms and recommendations

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<sup>4</sup> United States Postal Service Audit Report No. CP-AR-17-007, Cost Segment 3 – Clerks and Mail Handlers, March 22, 2017 (OIG Report), available at: <https://www.uspsaig.gov/sites/default/files/document-library-files/2017/CP-AR-17-007.pdf>.

regarding Cost Segment 3 and whether Proposal Seven is responsive to any of those recommendations. If no measures have been taken, please explain.

By the Chairman.

Robert G. Taub